

Message Text

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S E C R E T MOSCOW 14954

NODIS

FROM ROBINSON

E.O. 11652: GDS

TAGS: ETRD, EEWT, UR, US

SUBJECT: GRAIN/OIL NEGOTIATIONS

REFS: A. STATE 244346; B. MOSCOW 14888

1. SUMMARY: I MET WITH KUZ'MIN AND GORDEYEV AT 4:30 THIS AFTERNOON FRIDAY, OCTOBER 17, ACCOMPANIED BY FSO NILES. (PATOLICHEV AND AMBASSADOR STOESSEL WERE NOT PRESENT AS THEY WERE BOTH ATTENDING SOVIET RECEPTION FOR FRENCH PRESIDENT GISCARD D'ESTAING.) SUBSEQUENTLY, THE MATTERS DISCUSSED AT THIS MEETING WERE REFERRED BY KUZ'MIN TO PATOLICHEV, WHO HAS NOW APPROVED THE POSSIBLE ALTERNATIVE FOR REVISION OF PRICE CLAUSE 6 IN OIL LETTER OF INTENT WHICH HAD BEEN CONSIDERED AT THE MEETING AS REPLACEMENT FOR SIDE LETTER. PATOLICHEV ALSO GAVE FORMAL APPROVAL FOR THE ELIMINATION OF THE 30-DAY LIMITATION IN THE OIL LETTER OF INTENT AND SAID HE WOULD INFORM US AT A MEETING SCHEDULED FOR 1:00 P.M., SATURDAY, OCTOBER 18, OF THE SOVIET POSITION ON PRESIDENT FORD'S STATEMENT IN CONNECTION WITH THE LIFTING OF THE MORATORIUM ON FURTHER GRAIN SALES TO THE USSR.

2. ACCORDINGLY, I URGE THAT YOU AUTHORIZE ME TO SIGN THE GRAIN AGREEMENT AND THE OIL LETTER OF INTENT TOMORROW, SATURDAY, OCTOBER 18, AT 08:00 P.M. MOSCOW TIME (E.G., 24 HOURS FROM NOW) WITH THE FOLLOWING REVISIONS IN THE OIL LETTER OF INTENT:

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A) DELETE FROM THE INTRODUCTORY PARAGRAPH THE WORDS "WITHIN 30 DAYS" AND REPLACE WITH WORDS "TO COMMENCE NEGOTIATING PROMPTLY" AS PROPOSED PARA 4 REF B.

B) MODIFY PRICE CLAUSE 6 OF OIL LETTER OF INTENT IN ACCORDANCE WITH TEXT IN PARA 5 BELOW. (THIS WOULD SUBSTITUTE FOR A SIDE LETTER ON OIL PRICING WHICH APPEARS UNOBTAINABLE, AS EXPLAINED IN PARA 4 BELOW.) WE ANTICIPATE NO PROBLEM IN OBTAINING SOVIET ACQUIESCENCE IN A PRESIDENTIAL STATEMENT ON THE LIFTING OF THE MORATORIUM ALONG THE LINES DISCUSSED PARA 4, REF B. END SUMMARY.

3. THIS MEETING LASTED ONE AND ONE-HALF HOURS, DURING WHICH WE ATTEMPTED TO OBTAIN ACCEPTANCE OF OUR SIDE LETTER ON OIL PRICING IN ACCORDANCE WITH INSTRUCTIONS REFTEL A, PARA 3. KUZ'MIN REPORTED THAT THEY HAD HAD THE LETTER TRANSLATED, AND THEIR REVIEW CONFIRMED THEIR SUSPICION THAT WE WANTED THE LETTER TO ESTABLISH PUBLICLY THAT THE SOVIETS HAD AGREED TO A PRICE DISCOUNT. HE CITED DATA FROM PLATT'S "OILGRAM" ON 1974 OIL COSTS IN THE U.S. INDICATING AN AVERAGE OF \$7.53 PER BARREL, INCLUDING DOMESTIC PRODUCTION, WHILE THE SAUDI ARABIAN PRICE WAS \$10.835 PER BARREL. HE INTERPRETED OUR LETTER AS REFLECTING AN INTENT TO USE U.S. COSTS WELL BELOW WORLD MARKET AS A BASE AND THUS CONCLUDED THAT WE WERE ATTEMPTING TO ESTABLISH A DISCOUNT THROUGH THIS FORMULA.

4. I ASSURED KUZ'MIN THAT HE HAD MISINTERPRETED OUR LETTER, BUT IT WAS CLEAR THAT THE SOVIETS ARE HIGHLY SUSPICIOUS AND WILL REMAIN ADAMANTLY OPPOSED TO ANY SIDE LETTER CONTAINING TERMS TO WHICH THEY WOULD BE EXPLICITLY COMMITTED. THEY INDICATED THAT THEY MIGHT CONSIDER AN APPROACH WITH THE U.S. SUBMITTING A SIDE LETTER AND THE SOVIETS RESPONDING WITH A SIDE LETTER OF THEIR OWN TAKING A DIFFERENT POSITION. I REJECTED THIS SUGGESTION AS UNACCEPTABLE.

5. KUZ'MIN INDICATED AGAIN THAT THEY HAD PROVIDED US WITH SEVERAL FORMULATIONS FOR PRICE CLAUSE 6 OF THE OIL LETTER OF INTENT AND URGED THAT WE ACCEPT ONE OF THESE TO RESOLVE THIS ISSUE. OUT OF THIS DISCUSSION EVOLVED THE POSSIBILITY OF A COMPROMISE ALONG THE LINES SUGGESTED REFTEL B, PARA 7. HOWEVER, WE ENDED UP WITH WHAT I BELIEVE TO BE AN IMPROVEMENT OVER SUGGESTED NEW TEXT REFTEL B, PARA 7, BY ADDING TO THE PRESENTLY

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APPROVED TEXT THE EARLIER FORMULATION. ON THIS BASIS IT WOULD NOW READ AS FOLLOWS:

"PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS WILL BE MUTUALLY AGREED AT A LEVEL WHICH WILL ASSURE THE INTERESTS OF BOTH THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS; SUCH PRICES TO BE ESTABLISHED IN THE CONTRACTS ON THE

BASIS OF WORLD PRICES, TAKING INTO ACCOUNT THE QUALITY

OF THE CRUDE OIL AND PETROLEUM PRODUCTS SUPPLIED AND TRANSPORTATION CONDITIONS". I EMPHASIZED THAT ALTHOUGH I WOULD SUBMIT THIS ALTERNATIVE TO WASHINGTON I HAD NO AUTHORITY TO ACCEPT IT AS SUBSTITUTE FOR SIDE LETTER.

6. ALTHOUGH KUZ'MIN AND GORDEYEV APPEARED TO VIEW THIS AS A SIGNIFICANT CONCESSION ON THEIR PART, IN THE INTERESTS OF RESOLVING THIS ISSUE THEY AGREED TO SEEK APPROVAL OF THIS FORMULATION FROM PATOLICHEV AS SOON AS HE COULD BE CONTACTED AND PROMISED A RESPONSE BY 8:00 P.M. THIS EVENING, MOSCOW TIME. AT 7:30P.M. WE RECEIVED BY TELEPHONE CONFIRMATION OF PATOLICHEV'S ACCEPTANCE OF THIS FORMULATION.

7. I BELIEVE THAT WE FACE TWO BASIC ALTERNATIVES AS FOLLOWS:

A) CONTINUE TO DEMAND A SIDE LETTER. (IT APPEARS HIGHLY UNLIKELY THAT WE CAN OBTAIN SUCH A LETTER EVEN WITH FURTHER MODIFICATIONS WHICH KUZ'MIN SAID HE SAW NO POINT IN DISCUSSING.)

B) ACCEPT THE REVISED PRICE CLAUSE 6 OF THE OIL LETTER OF INTENT (PARA 5 ABOVE). (THIS, COMBINED WITH CLAUSE 4 OF THE OIL LETTER OF INTENT ESTABLISHING A MUTUAL AGREEMENT TO SHIP SOME PORTION OF THE OIL TO THE U.S. IN TANKERS USED FOR GRAIN TRANSPORTATION, SATISFIES THE BASIC CONDITIONS IN THE PROPOSED SIDE LETTER - EXCEPT FOR PAYMENT TERMS WHICH ARE IMPLIED IN THE PROPOSED REVISION OF PRICE CLAUSE 6.)

8. WE RECOMMEND ALTERNATE B. IN OUR JUDGMENT, WE FACE CONTINUING DELAY IN ANY EFFORT TO ACHIEVE ALTERNATE A, WITH FURTHER STRAIN IN OUR OVERALL RELATIONSHIP AND LITTLE LIKELIHOOD OF ULTIMATE SUCCESS.

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9. ACCORDINGLY I RECOMMEND THAT I BE GRANTED PROMPTLY AUTHORIZATION TO CONCLUDE THE GRAIN/OIL NEGOTIATIONS ON THE BASIS OF

A) A STATEMENT BY PRESIDENT FORD IN LIFTING THE GRAIN MORATORIUM ALONG THE LINES OF REFTEL B, PARA 3.

B) ELIMINATION OF THE NEGOTIATING LIMIT OF "WITHIN 30 DAYS" IN THE OIL LETTER OF INTENT (REFTEL B, PARA 4).

C) REVISION OF PRICE CLAUSE 6 OF THE OIL LETTER OF INTENT IN ACCORDANCE WITH TEXT OF PARA 5 ABOVE IN LIEU OF A SIDE LETTER AGREEMENT.

10. IF AUTHORITY REQUESTED IN PARA 9 ABOVE IS GRANTED WE ASSUME

TIME CLOCK WILL BEGIN TO RUN IMMEDIATELY, THUS PERMITTING
SIGNATURE OF BOTH DOCUMENTS AT APPROXIMATELY 8:00 P.M. MOSCOW
TIME SATURDAY, OCTOBER 18, FOLLOWING 24 HOUR PERIOD FOR WASHINGTON
CONSULTATIONS.

11. IF BOTH DOCUMENTS ARE SIGNED AS PROPOSED ABOVE, IT WILL BE
IMPOSSIBLE FOR ME TO LEAVE MOSCOW WITHOUT MEETING RESIDENT U.S. PRESS
CROPS. I WOULD APPRECIATE ANY GUIDANCE WASHINGTON CAN PROVIDE ON
HOW I SHOULD HANDLE CONTACTS WITH PRESS. IT IS UNCLEAR AT THIS
POINT WHETHER SOVIETS PLAN ANY PUBLICITY AT TIME OF SIGNING.
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